# QUATERLY REPORT ON FOREIGN ECONOMIC ASSISTANCE

## (July –September 2020)

Government of Pakistan
MINISTRY OF ECONOMIC AFFAIRS
Policy Analysis and Development Wing

# PREFACE

Economic Affairs Division has prepared this '***Quarterly Report on Foreign Economic Assistance***' to an overview of Pakistan's external inflows, outflows, external public debt and debt servicing. Main objective of the report is to provide information to readers including researchers, economists and local and international development partners on external economic assistance position of Pakistan.

The report consists of four chapters. Chapter 1 explains rationale and procedure for obtaining external economic assistance. Chapter 2 outlays total commitments from the developing partners with the Government of Pakistan during July-September 2020. Chapter 3 narrates the total disbursements made by the development partners during the period. Chapter 4 deals with the external public debt and its servicing.

Data for the bulletin is obtained from Debt Management and Financial Analysis System (DMFAS) database managed by Debt Recording and Reporting Center of Economic Affairs Division. Electronic copy of the bulletin is available on Economic Affairs Division's Website (www.ead.gov.pk).

We hope readers will find this report useful. Comments and suggestions for further improvements of this report are welcome.

**Mr. NOOR AHMED**
Secretary (EAD)

Islamabad, February, 2021

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# Chapter 1

# Introduction

The Foreign Economic Assistance (FEA) can be defined as *"government aid designed to promote the economic development and welfare of developing countries"* [1]. It includes concessional loans, grants and technical assistance which is provided bilaterally or through multilateral agencies such as the World Bank, the Asian Development Bank, Islamic Development Bank, Asian Infrastructure Investment Bank or United Nations, etc. The purpose of obtaining FEA is to undertake social and economic development projects with larger and sustainable impact on public welfare. Foreign assisted programs also help developing countries to achieve higher and sustainable economic growth through adoption of economic reforms and greater economic integration. It provides immediate relief to the developing countries facing fiscal imbalances and also facilitates them to achieve their intended development objectives.

Government of Pakistan has been receiving foreign assistance mainly to achieve two major strategic objectives: (a) sustainable social and economic growth as envisioned in its development plans to reduce poverty and inequality; and (b)to address the fiscal imbalances for enhanced macroeconomic stability.

This report is intended to provide first hand information about the FEA (both in the form of loans and grants) received by the Government of Pakistan from multilateral and bilateral development partners from July 2020 to September 2020. Data has been obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by Debt Recording and Reporting Centre of the Economic Affairs Division[2].

## 1.1. Recording Procedure

The Rules of Business, 1973 empowers the Economic Affairs Division (EAD) to,*inter-alia*, compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, EAD maintains a database called DMFAS and follows the following procedure to record transactions pertaining to FEA in the following manners.

[1]OECD (2020), Net ODA (indicator).doi: 10.1787/33346549-en (Accessed on 18 August 2020)

[2]The report does not contains data of IMF, Pakistan Banao Certificates and foreign portfolio investment in GoP's domestic securities.

Upon approval of foreign funded project/program from the competent forum (i.e. CDWP or ECNEC); a Financing Agreement is signed by EAD with the respective development partner(s). The Agreement provides the details of amount of the loan or grant that will be disbursed during the tenure of Agreement. The Agreement broadly covers project/program activities, terms and conditions of loan/grant including interest rate, commitment or other charges, if any, and amortization schedule. Once the Agreement is signed, it is recorded in EAD's database as "Commitment". The Executing Agency, depending upon the requirement of the project/program, initiates withdrawal application and sends it to the respective development partner. After scrutiny, the development partner disburses the amount directly to the project assignment account maintained by the Executing Agency and informs the EAD accordingly. On confirmation from the development partner or the Executing Agency, the amount is entered in EAD's database as "Disbursement". If disbursed amount is against the grant then no repayment is involved and it does not become part of external public debt stock. However, in case of loan, the disbursed amount becomes part of the external public debt stock. Based on the amortization schedule, the repayment of the loan is managed by EAD. For this, EAD coordinates with the relevant sponsoring/executing agency, development partner and State Bank of Pakistan. EAD also regularly conducts the portfolio reviews of foreign funded projects/programs to ensure quick disbursement and facilitate sponsoring/executing agency for timely completion of projects/programs.

The following chapters explain the total commitments and disbursements made by the development partners and the foreign commercial banks during July-September 2020. It also discusses the external public debt composition and its debt servicing.

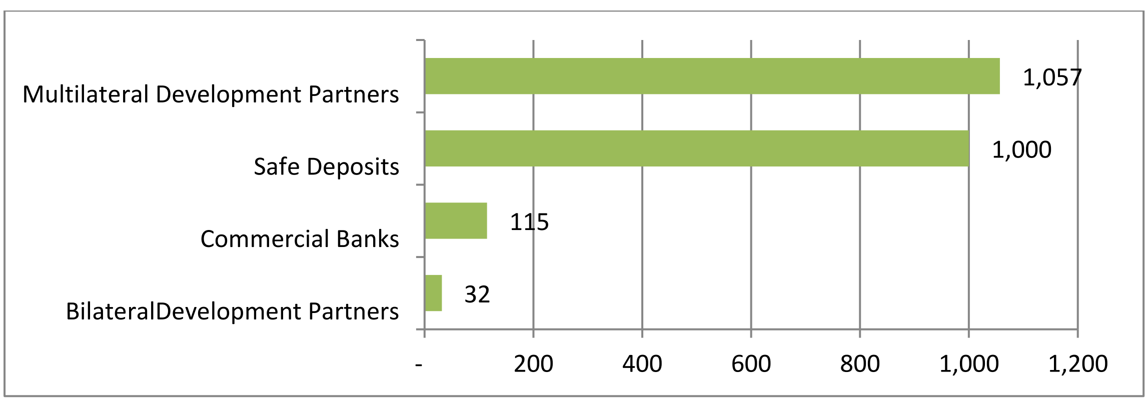
# Chapter 2

# New Commitments

New commitment signifies the amount of FEA which has been committed by the development partners during the observed time period and is likely to be disbursed in the next five to six years. The new commitment is recorded by the EAD after the signing of the "financing instrument" with the development partners. EAD signs the instrument after rigorous consultations and negotiations with the stakeholders including Finance Division, Law Division and relevant sponsoring/executing agency of federal/provincial governments. In addition, the loans signed by the Finance Division are also recorded in the EAD's database as "Commitments". The Finance Division raises funds from the international financial institutions and capital markets in the shape of foreign commercial loans and through issuance of Eurobonds/Sukuk to stabilize foreign exchange reserves and provide budgetary/balance of payments support.

During first quarter of FY 2020-21, the Government of Pakistan signed new agreements worth USD 2,203 million with various development partners including Safe Authority and foreign commercial banks. Out of total new agreements, USD 1,057 million worth of financing agreements were signed with multilateral development partners, USD 1,000 million as safe deposits, USD 115 million with foreign commercial banks and USD 32 million with bilateral development partners **(see Figure 1).**

***Figure 1: Composition of New Commitments (USD Million)***

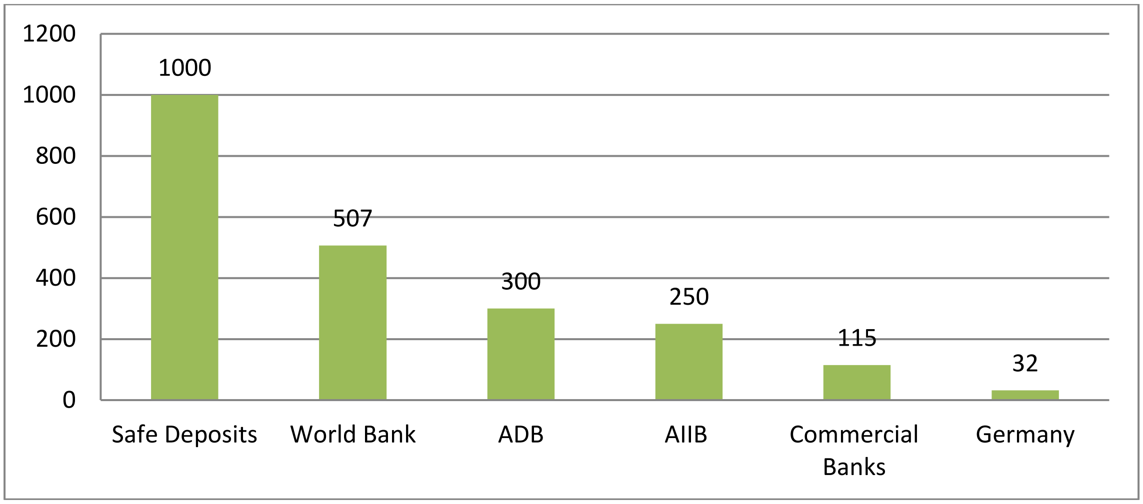



**Data Source:** DMFAS database

## 2.1. Commitments by Development Partners

Around USD 1,115 million worth of agreements, which constituted 50% of the total new commitments, were Safe deposits and commercial borrowing **(see Figure 2)**. This high level of commercial financing was arranged to refinance maturing commercial debt and to repay deposit received from a friendly country. After commercial banks and Safe Deposits, World Bank emerged as the largest development partner in terms of new commitments of FEA (23%) followed by Asian Development Bank (14%), Asian Infrastructure Investment Bank (11%) and Germany (2%).

*Figure 2: Composition of New Commitments (USD Million)*




**Source:** DMFAS database

## 2.2. Mode of Financing of New Commitments

Foreign economic assistance in Pakistan is broadly categorized as: (a) Project financing; (b) Program financing and; (c) Commodity financing. Project financing is obtained for funding socio-economic and infrastructure development projects. Program financing is secured to support the wide-ranging economic reforms and balance of payments and is generally obtained from multilateral development partners such as ADB, World Bank, AIIB, etc. (on concessional terms and conditions with longer maturity). In addition, the government also raises funds from international financial institutions and capital markets to meet its immediate fiscal and liquidity requirements.

During the period an amount of USD 2,171million has been committed as budgetary support; of which USD 1,056 was committed by multilateral development partners as program financing. The program financing has been arranged to broaden and deepen the financial systems, improve the fiscal management and regulatory framework to foster growth and competiveness in Pakistan. The remaining amount of USD 1,115 million was arranged from foreign commercial banks and SAFE authority to repay deposit received from a friendly country. The amount of USD 31.62 million was allocated for project financing.

# Chapter 3

# Disbursements

Disbursements of FEA represent the total amount received by the government from its development partners. Direct comparison of disbursements with new commitments is not useful as the commitments are planned to be disbursed over the time span of five to six years, whereas disbursements during a particular period is the cumulative sum of disbursements against new and old commitments.

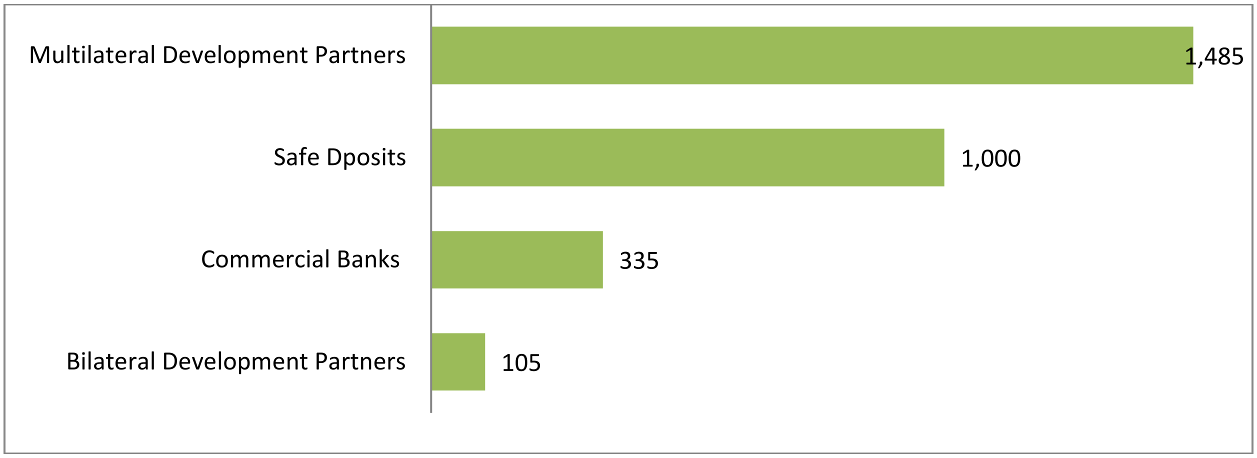
## 3.1. Composition of Disbursement

Disbursements of USD 2.9 billion during July-September 2020 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions. During the period, an amount of USD 1,590 million has been disbursed by multilateral and bilateral development partners as compared to USD 1,565 million last year.

The composition of disbursement is as follows:

a) USD 1,485 million or 51% of total disbursements were from the multilateral development partners, mainly Asian Development Bank, Asian Infrastructure Investment Bank and World Bank;
b) USD 1,000 million or 34% of total disbursement were from Safe Authority to repay the deposits received from a friendly country.
c) USD 335 million or 11% of total disbursements were from foreign commercial banks mainly to refinance maturing commercial debt.
d) USD 105 million or 4% of the disbursements were from bilateral development partners particularly France, USA and the UK.

*Figure 3: Composition of Foreign Economic Assistance (USD Million)*

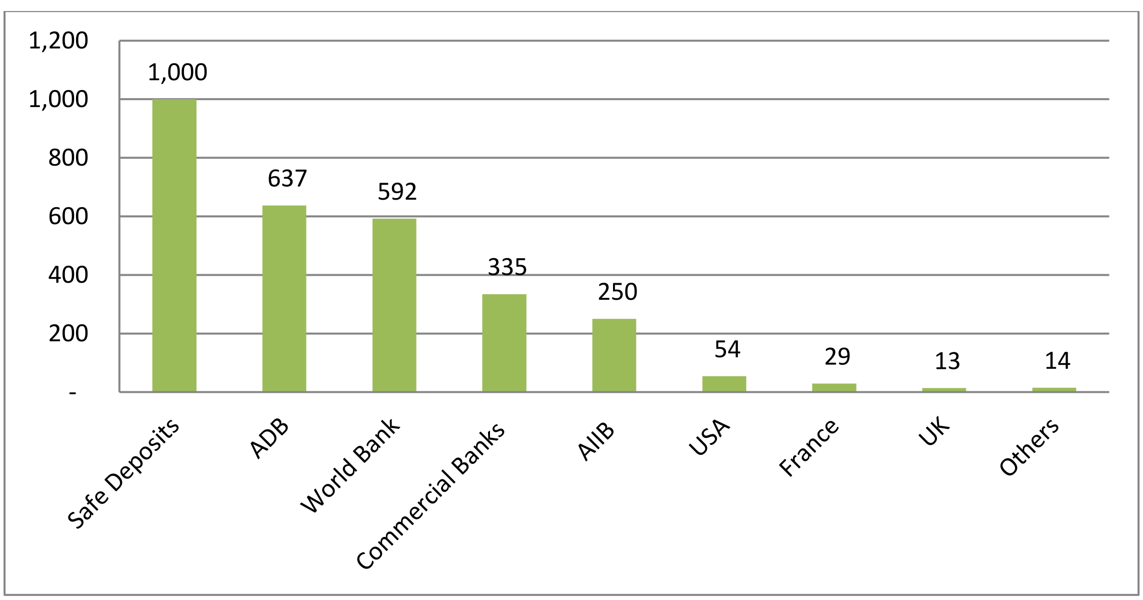



**Source:** DMFAS database

Increased level of inflows from the multilateral and bilateral development partners is indicative of their commitment to support development priorities of the Government. These inflows are long term and on concessional terms with lower cost which is a reflection of healthy composition and quality of external public debt.

Detail of the disbursements made by development partners is summarized in **Figure 4**. After Safe Deposits, ADB and World Bank are the largest Development partners with disbursement of USD 637 million (22%) and USD 592 million (20%) followed by Foreign Commercial Banks (11%), AIIB (9%) and USA (2%).

*Figure 4: Donor wise composition of Foreign Economic Assistance (USD Million)*

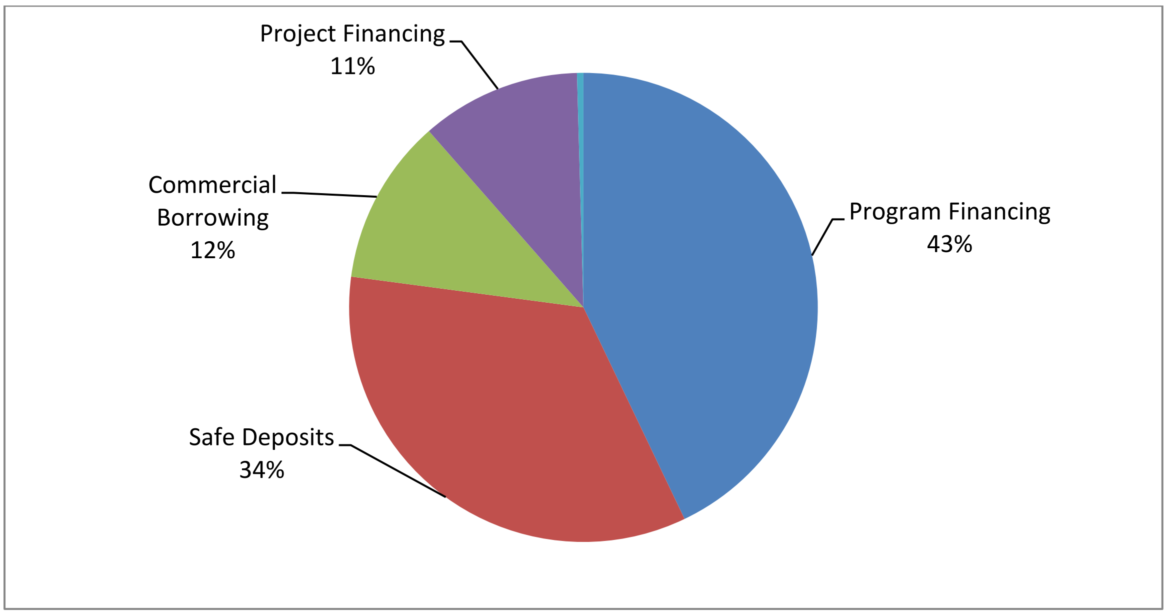



**Source:** DMFAS database

### 3.2. Mode of Disbursements

FEA is mainly received in the shape of program financing, project financing and commodity financing. During the period under review, 43% of the total disbursements were program financing (see **Figure 5**) which have been arranged to broaden and deepen the financial systems, improve the fiscal management and regulatory framework to foster growth and competiveness in Pakistan. An amount of USD 1.0 billion (34% of the total disbursement) was obtained from SAFE authority to repay deposit received from a friendly country. The amount of USD 335 million (11%) was obtained from foreign commercial banks. The remaining 11% of the disbursement were for project financing.

*Figure 5: Mode of Disbursements*



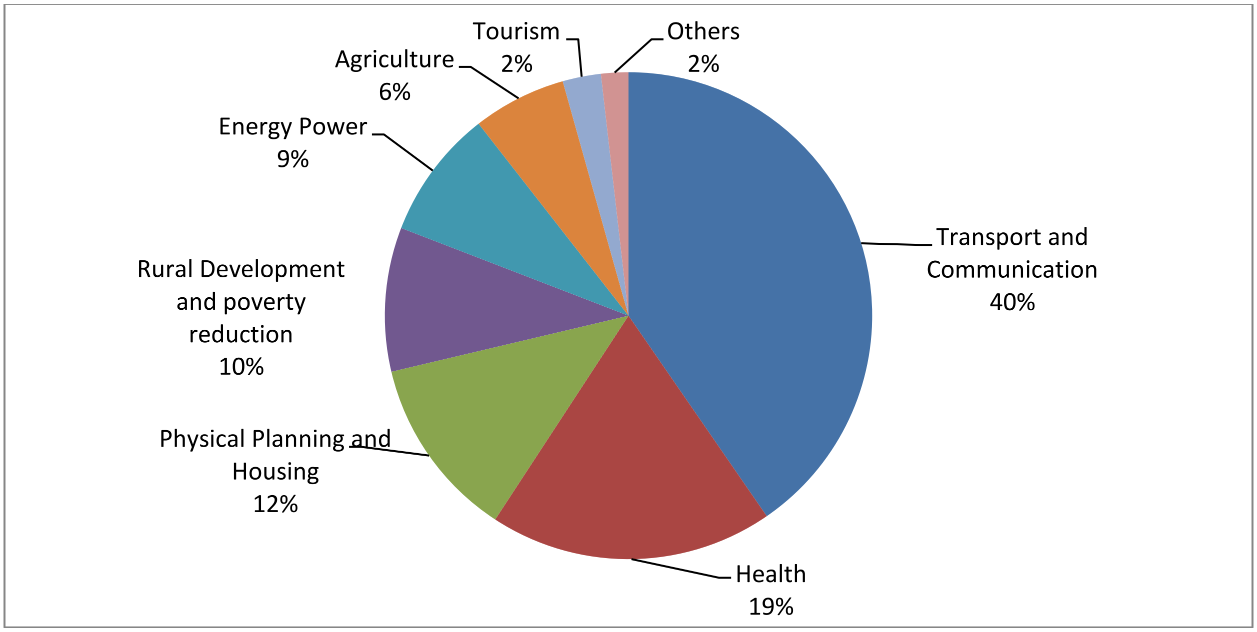

**Source:** DMFAS database

### 3.3. Sectoral Distribution of Disbursement

Sectoral distribution of the disbursements under project financing represents sectoral priorities of the Government. Basically, it reflects sectoral composition of active portofolio of project assistance in the country.

The sectoral comsopition of project assistance is summarised in **Figure 6**. The largest sector in terms of disbursements isTransport & Communication (40%) followed by Health sector (19%), Physical Planning and Housing sector ( (12%), Rural Development and Poverty Reduction sector (10%) and Energy/Power Sector (9%).

***Figure 6: Sector wise composition of FEA (project assistance)***




**Source:** DMFAS database

# Chapter 4

# External Public Debt

Externl financing has become an important source for developing countries including Pakistan to finance development interventions and generate economic activity in the economy.It not only improves efficiency of resource allocation and economic growth but also helps government to augment its limited financial resources allocated for the provision of public goods such as health, education, safety nets, etc. On one hand, it finances mega development projects like dams, power transmission, roads and rail networks and other infrastructure projects while on the other hand, it provides support to economy for balance of payments and narrows investment-saving gaps. Most of the economies world-wide rely on debt inflows to meet the shortfall in available resources and to cover the budget deficits.

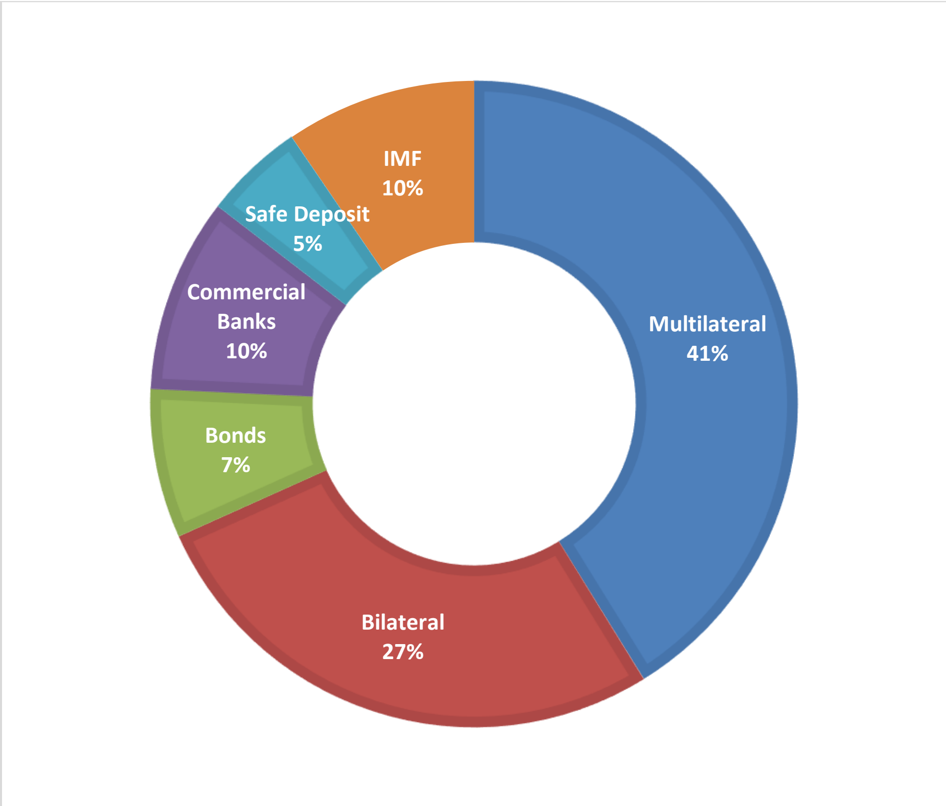
Borrowing can be productive for economic growth of developing countries as long as the economic returns are higher than the cost of borrowed funds. While external debt is useful for growth of the economy, dependence on external debt must be closely monitored and managed. A prudent external debt managemet strategy coupled with necessary institutonal arrangements is necessary for managing the external debt and improving the repayment capacity of the country. Good debt accrues assets that generate positive returns and externalities.

It is impartant to understand the distinction between external debt and external public debt. External debt is the sum of external public debt and external private debt, owed by the private sector including multilnational corporations, banks and other private institutions. Whereas external public debt represents only the debt owed by the government including the obligations of IMF which is to be repayed out of budgetary resources.

## 4.1. Composition of External Public Debt

As of 30th September, 2020, Pakistan's total external public debt stands at USD 79.8 billions.The composition of external public debt (**Figure 7)** demonstrates that Pakistan's external public debt is derived from three key sources. Major source is multilateral debt (comprising of 51% inclusive of IMF), followed by bilateral 32% (inclusive of China's SAFE deposits) while remaining 17% from foreign commercial banks and institutions (inclusive of Eurobonds and Sukuk).

*Figure 7: Composition of External Public Debt*
*(As of 30th September, 2020)*



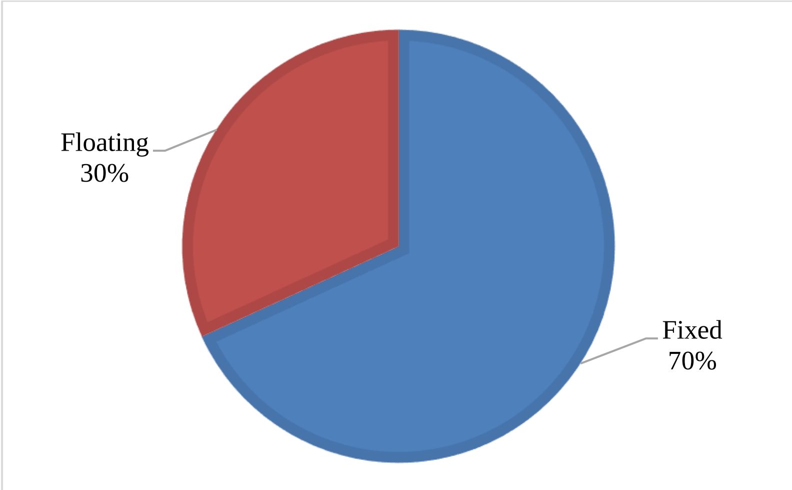

**Source:** DMFAS database

## 4.2. Terms of External Public Debt

Terms and conditions of loans are important for the assessment of debt servicing. Loans are generally obtained either on fixed interest rates or on floating interest rates. Main advantage of having fixed interest rate is that interest payments are fully predictable and amortization schedule is pre-defined. In contrast, floating interest rate is anchored to the prevailing market conditions and is usually indexed with London Inter-Bank Offered Rate (LIBOR). Interest payments of floating rate debt change in accordance with the change in prevailing LIBOR rates.

As of 30th September, 2020, 70% of total external public debt consists of loans on fixed interest rates while 30% loans are obtained on floating interest rates (see **Figure 8**).

*Figure 8: Nature of External Public Debt*




**Source:** DMFAS database

## 4.3. External Public Debt Servicing

Government paid an amount of USD 1,788 million during July-September 2020 on account of debt servicing of external public loans. It consists of principal payment of USD 1,446 million and interest payment of USD 342 million. Details are as under:

**Table 1: External Public Debt Servicing**

(USD Million)

| Lender/creditor | Debt Servicing | | |
|---|---|---|---|
| | **Principal** | **Interest** | **Total** |
| **Commercial Banks** | 684 | 110 | 794 |
| **ADB** | 239 | 37 | 276 |
| **World Bank** | 183 | 60 | 243 |
| **China** | 70 | 58 | 128 |
| **Bonds** | -- | 32 | 32 |
| **IDB** | 18 | 7 | 25 |
| **Others** | 6 | 27 | 33 |
| **Total** | **1,446** | **342** | **1,788** |

**Source:** DMFAS database

Net transfer is also critical to analyze overall external debt stock. Net transfers indicate increase or decrease in the external public debt stock. It is calculated as difference between external public loans received and their repayments made to the foreign creditors during a specific period.

A positive balance reflects an increase in external debt stock while negative balance depicts decrease in external debt stock.

For the period under review, net transfers to the government were USD 1,408 million[3]. An amount of USD 1,000 million was arranged from SAFE authority to repay deposit received from a friendly country. If that amount is excluded then we have net transfers of only 408 million. The share of concessional external loans with longer maturity increased by USD 757 million (multilateral and bilateral loans) and the share of commercial borrowing has reduced by USD 349 million. This indicates qualitative improvement in external public debt stock.

**Table 2: Net Transfers**

(USD Million)

| Source | External Loan Inflow | External Loan Outflow | Net Transfers |
|---|---|---|---|
| Bilateral Development Partners | 36 | 74 | (38) |
| Multilateral Development Partners | 1,483 | 688 | 795 |
| Commercial Banks | 335 | 684 | (349) |
| Safe Deposits | 1,000 | 0 | 1000 |
| **Grand Total** | **2,854** | **1,446** | **1,408** |

**Source:** DMFAS database

Pakistan has successfully discharged its debt servicing obligations by mobilizing external resources and shifting focus from short-term commercial high-cost liquidity to long-term concessional flows. This also reflects the prudent external debt management by the government and confidence of our development partners.

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[3] Since net transfers are estimated on actual exchange rate whereas external public debt stock is estimated on a particular point of time, therefore, due to difference in exchange rate these two numbers may differ.